ERNEST BOREL HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

STOCK CODE : 1856

2018
INTERIM REPORT

CONTENTS

CORPORATE INFORMATION

Ernest Borel Holdings Limited ((the "**Company**"), and together with its subsidiaries, the "**Group**")

DIRECTORS

Executive Directors

Mr. Sit Yau Chiu *(Chairman of the Board and Chief Executive Officer ("**CEO**"))*

Mr. Xiong Wei

Non-executive Directors

Ms. Lou Liuqing

Mr. Chan Kwan Pak Gilbert *(resigned on 10 April 2018)*

Independent Non-executive Directors

Mr. Lui Wai Ming

Mr. To Chun Kei

Ms. Chan Lai Wa

COMPANY SECRETARY

Mr. Lau Fan Yu

AUDIT COMMITTEE

Mr. Lui Wai Ming *(Chairman)*

Mr. To Chun Kei

Ms. Chan Lai Wa

REMUNERATION COMMITTEE

Mr. Lui Wai Ming *(Chairman)*

Mr. Sit Yau Chiu

Mr. Xiong Wei

Mr. To Chun Kei

Ms. Chan Lai Wa

NOMINATION COMMITTEE

Mr. Sit Yau Chiu *(Chairman)*

Mr. Xiong Wei

Mr. Lui Wai Ming

Mr. To Chun Kei

Ms. Chan Lai Wa

EXECUTIVE COMMITTEE

Mr. Sit Yau Chiu

Mr. Xiong Wei

INVESTMENT COMMITTEE

Mr. Sit Yau Chiu

Mr. Xiong Wei

AUTHORISED REPRESENTATIVES

Mr. Sit Yau Chiu

Mr. Lau Fan Yu

COMPANY'S WEBSITE

www.ernestborel.ch

REGISTERED OFFICE

P.O. Box 10008, Willow House, Cricket Square
Grand Cayman KY1-1001
Cayman Islands

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Switzerland

OFFICE IN THE PEOPLE'S REPUBLIC OF CHINA

Suite 701, Taikoo Hui Tower 1
385 Tianhe Road, Guangzhou 510620
People's Republic of China

PRINCIPAL PLACE OF BUSINESS AND HEAD OFFICE IN HONG KONG

Unit 1612–18, Level 16, Tower 1
Grand Century Place
193 Prince Edward Road West
Mongkok, Kowloon
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Tricor Services (Cayman Islands) Limited
P.O. Box 10008, Willow House, Cricket Square
Grand Cayman KY1-1001
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

INDEPENDENT AUDITOR

Crowe (HK) CPA Limited
Certified Public Accountants

PRINCIPAL BANKER

Hang Seng Bank Limited

LEGAL ADVISERS

As to Hong Kong law
JunHe Law Offices

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Revenue for the financial period ended 30 June 2018 ("**1HFY2018**") decreased from HK$98.0 million to HK$84.3 million when compared with the corresponding period of last year ("**1HFY2017**").

- Gross margin for 1HFY2018 increased from 40.9% to 46.9%. Gross profit for 1HFY2018 decreased from HK$40.1 million to HK$39.5 million.

- Loss after tax for 1HFY2018 decreased from HK$81.6 million for 1HFY2017 to HK$43.1 million for 1HFY2018.

- Basic loss per share was HK12.41 cents for 1HFY2018 and was HK23.48 cents for 1HFY2017.

Note: In the case of any inconsistency between the Chinese translation and the English text of this interim report, the English text shall prevail.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Established since 1856 in Switzerland, Ernest Borel has a proud heritage spanning over 160 years. Throughout the course of its history and across its operations, the Group has upheld the principles of producing high precision "Swiss-made" products and implemented stringent quality controls. Under its own brand "Ernest Borel", the Group engaged in the design, production, marketing and sale of mechanical and quartz premium watches. As one of the oldest Swiss premium watchmakers, Ernest Borel has adopted the "dancing couple" as its icon, which embodies "romance and elegance". The extensive distribution network of the Group covers retail markets in the People's Republic of China (the "**PRC**", and for the purpose of this report, excludes the Hong Kong Special Administrative Region ("**Hong Kong**"), the Macau Special Administrative Region ("**Macau**") and Taiwan), Hong Kong, Macau and Asia. For the six months ended 30 June 2018, the Group has a total of 793 points of sale ("**POS**").

Ernest Borel recorded a revenue of HK$84.3 million (1HFY2017: HK$98.0 million), representing a year-on-year decrease of approximately 14.0%, and gross profit and gross profit margins declined to HK$39.5 million (1HFY2017: HK$40.1 million) and increased to 46.9% (1HFY2017: 40.9%) respectively. Consequently, loss attributable to equity holders amounted to HK$43.1 million.

The PRC

The PRC remains the major market of the Group. As at 30 June 2018, the Group had 635 POS in the country. Revenue from the PRC segment declined from HK$81.2 million for 1HFY 2017 to HK$73.9 million for 1HFY 2018, accounting for approximately 87.7% of total revenue.

Hong Kong, Macau and Southeast Asia Markets

As at 30 June 2018, the Group had 133 POS in Hong Kong, Macau and Southeast Asia Markets. Sales in these markets decreased by approximately 34.0% from HK$14.1 million for 1HFY 2017 to HK$9.3 million for 1HFY 2018, accounting for approximately 11.0% of total revenue.

FINANCIAL REVIEWS

Revenue and segment information

Our revenue decreased by HK$13.7 million, or approximately 14.0% from HK$98.0 million for 1HFY2017 to HK$84.3 million for 1HFY2018.

Performance by major products

	1HFY2018 HKD (in million)	1HFY2017 HKD (in million)	Changes HKD (in million)	%
Mechanical watches	**57.7**	65.3	(7.6)	(11.6)%
Quartz watches	**24.6**	30.7	(6.1)	(19.9)%
Total	**82.3**	96.0	(13.7)	(14.3)%

Mechanical watches

Revenue from sales of mechanical watches decreased by approximately 11.6% from HK$65.3 million for 1HFY2017 to HK$57.7 million for 1HFY2018.

Quartz watches

Revenue from sales of quartz watches decreased by approximately 19.9% from HK$30.7 million for 1HFY2017 to HK$24.6 million for 1HFY2018.

Performance by geographical location

	1HFY2018 HKD (in million)	1HFY2017 HKD (in million)	Changes HKD (in million)	%
PRC Market	**73.9**	81.2	(7.3)	(9.0)%
Hong Kong, Macau and Southeast Asia Markets	**9.3**	14.1	(4.8)	(34.0)%
Other Markets mainly in United States and Europe	**1.1**	2.7	(1.6)	(59.3)%
Total	**84.3**	98.0	(13.7)	(14.0)%

The PRC market

The PRC continues to be our major market, representing approximately 87.7% of our revenue for 1HFY2018. Sales in this region showed a decrease of approximately 9.0% from HK$81.2 million for 1HFY2017 to HK$73.9 million for 1HFY2018.

Hong Kong, Macau and Southeast Asia markets

Hong Kong, Macau and Southeast Asia markets accounted for approximately 11.0% of our total revenue for 1HFY2018. Sales in this market decreased by approximately 34.0% from HK$14.1 million for 1HFY2017 to HK$9.3 million for 1HFY2018.

Other markets

Revenue from other markets, namely, markets in the United States and Europe recorded a decrease from HK$2.7 million for 1HFY2017 to HK$1.1 million for 1HFY2018.

Cost of Sales

Cost of sales decreased by approximately 22.8% from approximately HK$57.9 million for 1HFY2017 to approximately HK$44.7 million for 1HFY2018.

Gross profit

Our gross profit decreased by HK$0.6 million or approximately 1.5% from HK$40.1 million for 1HFY2017 to HK$39.5 million for 1HFY2018. The decrease in gross profit is mainly attributable to decrease in revenue as compared to the same period in 2017. The gross profit margin was recorded an increase from 40.9% for 1HFY2017 to 46.9% for 1HFY2018. The increase in gross profit margin was mainly due to the decrease in provision of inventory of HK$5.9 million.

Other gains and losses

We recorded other losses of HK$3.2 million for 1HFY2018, which was primarily attributable to the exchange net loss of HK$3.4 million arising from depreciation of HKD against the Renminbi and the Swiss Franc, partially offset by reversal of allowance for doubtful debts of HK$0.2 million, as compared to losses of HK$19.8 million for 1HFY2017.

Distribution costs

Our selling and distribution costs decreased by HK$24.0 million or approximately 39.8% from HK$60.3 million for 1HFY2017 to HK$36.3 million for 1HFY2018, representing approximately 43.1% of our total revenue for 1HFY2018 (1HFY2017: approximately 61.5%). The decrease was primarily attributable to: (i) a decrease in advertising and marketing expenses of HK$6.2 million, (ii) a decrease in depreciation of display counter of HK$10.7 million, (iii) a decrease in shop rental and operation expenses of HK$5.2 million, and (iv) decrease in other selling expenses of HK$1.9 million.

Administrative expenses

Our administrative expenses decreased to HK$26.3 million for 1HFY2018 from HK$27.0 million for 1HFY2017, representing a decrease of HK$0.7 million or approximately 2.6%. The decrease in administrative expenses was primarily due to a decrease in legal and professional fee of HK$0.8 million.

Finance costs

Our finance costs increased by HK$1.7 million or approximately 12.2% from HK$13.9 million for 1HFY2017 to HK$15.6 million for 1HFY2018 as a result of the issuance of note payable during the year ended 31 December 2017.

Taxation

Our income tax recorded an increase to HK$1.8 million for 1HFY2018 from HK$1.4 million for 1HFY2017.

Loss for the period attributable to owners of our Company

Due to the decrease in the provision of inventory and bad debts; and the decrease in operational expenses by the implementation of effective cost control measures by the Group, our net loss decreased from HK$81.6 million for 1HFY 2017 to HK$43.1 million for 1HFY 2018, representing a decrease of HK$38.5 million or approximately 47.2%.

Inventory

Inventory recorded a decrease from HK$402.2 million as at 31 December 2017 to HK$392.4 million as at 30 June 2018.

Trade and other receivables and payables

The Group's trade and other receivables amounted to approximately HK$81.6 million and approximately HK$58.7 million as at 31 December 2017 and 30 June 2018 respectively. Such decrease in trade and other receivables is attributable to decrease in trade receivable arising from decrease in sales revenue for 1HFY2018 and improvement in trade receivable collection for 1HFY 2018.

The Group's trade and other payables decreased slightly from approximately HK$39.2 million as at 31 December 2017 to approximately HK$38.1 million as at 30 June 2018.

Liquidity, financial resources and capital structure

As at 30 June 2018, we had non-pledged cash and bank balances of HK$36.1 million (31 December 2017: HK$56.2 million). Based on the borrowings of HK$204.0 million (31 December 2017: HK$241.6 million) and shareholders' equity of HK$273.9 million (31 December 2017: HK$317.6 million), our gearing ratio (being loans divided by shareholders' equity) was approximately 74.5% (31 December 2017: approximately 76.1%). As at 30 June 2018, part of our borrowing amounting to HK$Nil was repayable over one year and the remaining balance amounting to HK$204.0 million was repayable within one year.

Foreign exchange exposure

Certain members of our Group have foreign currency sales, which expose us to foreign currency exchange fluctuation risks. In addition, certain trade receivables, other receivables and deposits, bank balances, other payables and accrued expenses, and our intra-group balances were denominated in foreign currencies.

We will monitor foreign exchange trends and will consider hedging significant foreign currency exposure should the need arise.

Charge on assets

Our outstanding bank borrowings were secured by:

(a) charges over our time deposits with a carrying amount of HK$1.0 million (31 December 2017: HK$1.0 million); and

(b) charges over deposits placed for a life insurance policy with a carrying amount of HK$17.7 million (31 December 2017: HK$17.4 million).

Material acquisition and disposal of subsidiaries or associated companies

No material acquisition or disposal of any subsidiaries or associated companies was made during 1HFY2018.

The resolution in relation to the acquisition of 10,000 ordinary shares of Top Win International Trading Limited (the "**Acquisition**") pursuant to a sale and purchase agreement dated 30 November 2017 entered into between Swissmount Holdings Limited and Mr. Sit Yau Chiu ("**Mr. Sit**") (as supplemented and amended by a supplemental sale and purchase agreement dated 22 March 2018) (the "**Sale and Purchase Agreement**") was voted down by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 17 April 2018. This condition precedent to the completion of the Acquisition could not be fulfilled on or before 30 April 2018 and the Sale and Purchase Agreement ceased to be of any effect on 30 April 2018 and the Acquisition was terminated accordingly. For details, please refer to the announcement of the Company dated 18 April 2018.

Future plans for material investments and capital assets

Save as disclosed in this report, the Group does not have any plan authorised by the Board for material investments or additions of capital assets as at the date of this report.

Contingent liabilities

As at the close of business on 30 June 2018, the Group had the following litigations:

(a) On 6 October 2017, there is a claim against Ernest Borel (Far East) Company Limited ("**EB Far East**"), a wholly-owned subsidiary of the Company, for RMB1,726,664.80 in relation to rentals in respect of a store operated by a tenant under an agreement dated 1 August 2012 and a co-operation agreement dated 21 July 2015 purportedly made between EB Far East and the tenant, plus interest accruing on the rentals claimed and other related costs. On 10 January 2018, EB Far East filed a defence and a counter-claim. The above litigation is still at the early stage and EB Far East will vigorously defend against the claim taken by the tenant. However, to minimise the impact to the business operation in the future due to uncertainty, full provision for the rentals claimed has been made in the consolidated financial statements for the year ended 31 December 2017.

(b) On 20 October 2017, Guangzhou Tianhe Labour Dispute Arbitration Commission* (廣州市天河區勞動人事爭議仲裁委員會) issued an award (the "**Award**") against Ernest Borel (Guangzhou) Trading Co., Ltd. ("**EB Guangzhou**"), an indirect wholly-owned subsidiary of the Company, for a claim of salaries and other Payment totaling RMB2,566,186.83 in favour of Ms. Liu Libing ("**Ms. Liu**") (the "**Termination Case**"). Ms. Liu brought the claim in the capacity of an employee regarding her employment as the general manager of EB Guangzhou. Ms. Liu was also a director of the Company but retired on 26 May 2017. On 21 November 2017, EB Guangzhou instituted a legal action in Guangzhou Tianhe District Court* (廣州市天河區法院) to set aside the Award and claim for losses of RMB836,000 suffered. On 24 November 2017, Ms. Liu further claimed RMB1,173,000 against EB Guangzhou, and this case has been suspended for final judgement of the Termination Case. The directors of the Company believe that EB Guangzhou shall have valid grounds to defend all the claims taken by Ms. Liu. The legal proceedings taken by EB Guangzhou in Guangzhou Tianhe District Court are still in progress of first instance trial. However, full provision for the claim has been made in the consolidated financial statements for the year ended 31 December 2017.

(c) On 12 June 2017, Mr. Su Da, a former employee of the Company instigated a legal action against the Company for claim of salaries and other benefits in arrears in the capacity of an employee regarding his employment as the chief executive officer of the Company. The Company disputed the claim. No provision for the claim has been made in the consolidated financial statements and the Company does not expect to sustain material loss arising from the claim.

(d) On 20 July 2017, EB Guangzhou instituted a legal action against a distributor for the settlement of outstanding trade debts of RMB26,529,351.70 and related overdue interest. This distributor counterclaimed against EB Guangzhou for losses of RMB4,961,761.80 on 7 November 2017, and then withdrew most part of its counterclaim for losses of RMB3,979,000 arising from termination of the distributorship agreement on 8 May 2018. Management of the Group is of the opinion that EB Guangzhou shall have valid grounds to defend and set aside the rest counterclaim of RMB982,761.80 by this distributor. In case the counterclaim upheld by the court, it would be set off against the outstanding trade debts of the distributor. Accordingly, no provision for the counterclaim is considered necessary.

* *For identification purposes only*

Save as disclosed above and apart from intra-group liabilities, the Group did not have any outstanding mortgages, charges, debentures, loan capital, term loans and overdrafts, debt securities, hire purchase commitment, liabilities under acceptances (other than normal trade bills) or acceptance credits, borrowings or indebtedness in the nature of borrowings or any guarantees or other material contingent liabilities as at the close of business on 30 June 2018.

Interim dividend

The Board has resolved not to declare any interim dividend for the six months ended 30 June 2018 (1HFY2017: Nil).

Employees and Remuneration Policies

As at 30 June 2018, the Group has approximately 242 full time employees (31 December 2017: approximately 273). Total staff costs incurred during 1HFY2018 was approximately HK$33.5 million (lHFY2017: approximately HK$29.5 million).

All of our full-time employees are paid a fixed salary and may be granted other allowances based on their positions. Members of the sales staff are also eligible for commissions based on their ability to meet sales targets. In addition, year end bonuses may also be awarded to the employees at our discretion and based on employee performance. Yearly performance appraisals are conducted to ensure that the employees receive feedback on their performance. Our Company has adopted a share option scheme (the "**Share Option Scheme**") on 24 June 2014, which became effective on 11 July 2014, the date on which the shares of the Company were initially listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**" and the "**Listing Date**", respectively). No option has been granted under the Share Option Scheme during 1HFY2018.

The Group provides training to its employees on a regular basis to keep them abreast of their knowledge in the Group's products, technology developments and market conditions of its industry. In addition, the Group's senior management also participates in conferences and exhibitions to deepen their knowledge in the industry.

Commitments

At 30 June 2018, the Group did not have capital commitments.

At 30 June 2018, the Group has non-cancellable operating lease commitments of HK$11,102,000.

Prospects

In the first half of 2018, the Group implemented effective cost control strategies and resource utilisation plan in the area of distribution and administrative expenses based on market conditions, which resulted in a decrease in the overall operating costs and expenses of the Group.

As always, the Group endeavours to enhance the reputation of "Ernest Borel" brand by implementing effective marketing tactics and organizing various brand enhancement activities, such as launch events of new watches collections, organising road shows in different regions, outdoor advertising (billboards) and digital advertising. On the other hand, as the particular group of consumers (i.e. the younger generations) has been developed and established, the Group will continue to strengthen product design capabilities and develop different collections of watches under the theme of "romance and elegance" as the brand image. In the future, we plan to collaborate with world-renowned designers to re-interpret brand "Ernest Borel" and inherit the "romance" element of our brand culture. By embracing the element of "affordable luxury" in our designs, combining our brand image of uniqueness and elegance, our designers will continue to develop a wide range of "Swiss-made" watch series for males, females and couples, so as to meet the diverse preferences of our target mid-range-to-high-end customers.

Meanwhile, the Group will carry forward and intent the excellent quality and craftsmanship of Ernest Borel. With a view to strengthening product quality assurance which helps driving the sales of watch products, enhancing production efficiency and reducing production costs, the production line in the Switzerland plant has been undergone a comprehensive upgrade and reform.

Looking forward to the rest of the year, the global economy and market environment will remain challenging as the trade war looms large. The Group remains cautiously optimistic to continuously deploy appropriate strategies and enhance our capability in product design. We closely monitor the operational costs and implement the effective resources utilisation plan in "Swiss- made" watches industry. Meanwhile, the Group will maintain cost-control strategies in sales, distribution and administration expenses, manage and control the logistics and inventory to maintain high operational efficiency and reduce inventory costs. Last but not least, the Group will continue to pursue various investment opportunities to diversify and broaden its earning base, with a view to generating valuable and sustainable return to its shareholders in the future.

Events after the Reporting Period

There are no material events undertaken by the Group after the reporting period.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES AND ITS ASSOCIATED CORPORATIONS

As at 30 June 2018, the interests or short positions of the Directors and the chief executive in the Company's shares, underlying shares and debentures of the associated corporations of the Company, within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**") which were required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which whey were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be recorded in the register referred to therein or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are as follows:

Long Positions in the Company's Shares

Name of Directors/ Chief Executive	Capacity/ Nature of Interest	Number of interested Shares	Approximate percentage of interest in the total issued Shares(3)
Mr. Sit	Interest in controlled corporation(1)	102,520,000	29.51%
Mr. Xiong Wei ("**Mr. Xiong**")	Interest in controlled corporation(2)	37,935,000	10.92%

Notes:

(1) Top One Global Holdings Limited ("**Top One**") is a company wholly-owned and controlled by Mr. Sit. Mr. Sit is therefore deemed to be interested in the shares held by Top One.

(2) Prime Route Investment Limited ("**Prime Route**") is a company wholly-owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.

(3) Calculated based on the number of issued Shares as at 30 June 2018 (i.e. 347,437,000 shares).

Saved as disclosed above, as at 30 June 2018, none of the Directors and the chief executive of the Company and their respective associates had or was deemed to have any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register of the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

So far as is known to any Director or chief executive of the Company, as at 30 June 2018, the persons or corporations (not being a Director or chief executive of the Company) who or which had an interest or short position in the Shares and underlying Shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Long Position in the Company's Shares

Name of Shareholders	Capacity/ Nature of interest	Number of Shares held	Approximate percentage of interest in the total issued Shares[4]
Top One[1]	Beneficial owner	102,520,000	29.51%
Sino Wisdom Ventures Limited ("**Sino Wisdom**")[2]	Beneficial owner	99,755,000	28.71%
Ms. Yu Lai ("**Ms. Yu**")[2]	Interest in controlled corporation	99,755,000	28.71%
Prime Route[3]	Beneficial owner	37,935,000	10.92%

Notes:

(1) Top One is a company wholly-owned and controlled by Mr. Sit. Mr. Sit is therefore deemed to be interested in the shares held by Top One.

(2) Sino Wisdom is a company wholly-owned and controlled by Ms. Yu. Ms. Yu is therefore deemed to be interested in the shares held by Sino Wisdom.

(3) Prime Route is a company wholly-owned and controlled by Mr. Xiong. Mr. Xiong is therefore deemed to be interested in the shares held by Prime Route.

(4) Calculated based on the number of issued Shares as at 30 June 2018 (i.e. 347,437,000 shares).

Save as disclosed above, as at 30 June 2018, the Directors were not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

Long position in convertible bonds

Name of bondholder	Capacity	Description of equity derivatives	Number of underlying shares
Phoenix Green Limited[(1)]	Beneficial owner	2-year 10% convertible bond[(2)]	50,000,000

Note:

(1) Phoenix Green Limited ("Phoenix Green") is a company wholly-owned and controlled by Right Select International Limited ("Right Select"). Right Select is therefore deemed to be interested in the shares held by Phoenix Green. Right Select is a company wholly-owned and controlled by China Huarong International Holdings Limited ("Huarong International"). Huarong International is owned as to 88.1% and 11.9% by Huarong Real Estate Co., Ltd ("Huarong Real Estate") and Huarong Zhiyuan Investment & Management Co., Ltd, respectively, which are wholly-owned and controlled by China Huarong Asset Management Co., Ltd. ("Huarong Asset Management"). Each of Huarong Asset Management, Huarong Real Estate and Huarong International is therefore deemed to be interested in the shares held by Phoenix Green.

(2) All of the net proceeds from the issuance of the convertible bond had been utilized by the Company. For details, please refer to the announcement of the Company dated 10 August 2018.

SHARE OPTION SCHEME

The Company conditionally adopted a Share Option Scheme on 24 June 2014, which was effective upon the Listing Date. The purpose of the Share Option Scheme is to help motivate eligible persons to optimize their future performance and efficiency to the Group and/or reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group.

Eligible persons include (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group, any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (b) a director or proposed director (including an independent non-executive director) of any member of the Group; (c) a direct or an indirect shareholder of any member of the Group; (d) a supplier of goods or services to any member of the Group; (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and (g) an associate of any of the persons referred to in (a) to (c) above.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 34,700,000 Shares, representing approximately 9.99% of the issued share capital as at the date of this interim report.

No option may be granted to any participant of the Share Option Scheme such that the total number of shares issued and to be issued upon exercise of the options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as determined by the Board and not exceeding 10 years from the date of the grant. There is no minimum period for which an option must be held before it can be exercised. Participants of the Share Option Scheme are required to pay the Company HK$1.00 upon acceptance of the grant on or before the 28 days after the offer date. The exercise price of the options is determined by the Board in its absolute discretion and shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheets on the offer date; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

An independent non-executive director or a substantial shareholder (within the meaning of the Listing Rules) of the Company is subject to a much lower exercise price.

The Share Option Scheme shall be valid and effective for a period of 10 years from the adoption date, after which no further options will be granted or offered.

From the date on which the Share Option Scheme became effective and up to the date of this interim report, no share options were granted, exercised or cancelled or lapsed under the Share Option Scheme.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

The Board is of the view that the Company has complied with all code provisions as set out in the Corporate Governance Code and the Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "**Corporate Governance Code**") throughout the six months ended 30 June 2018 except for the deviations as explained below.

Code Provision A.2.1

Pursuant to the Code provision A.2.1, the roles of the Chairman and Chief Executive Officer ("**CEO**") should be separate and should not be performed by the same individual as this ensures a better system of checks and balances and hence better corporate governance. Mr. Sit holds the positions of the Chairman and CEO, who is primarily responsible for the overall strategies, planning and business development of the Group. The Board considers that the current structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. The Board believes that the balance of power and authority is adequately ensured by the composition of the existing Board.

Code Provision A.6.7

Pursuant to the Code provision A.6.7, Independent Non-executive Directors and other Non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Ms. Lou Liuqing, the Non-executive Director, was unable to attend the Company's annual general meeting held on 1 June 2018 due to other business engagements.

Code provision E.1.2

Pursuant to the Code provision E.1.2, the chairman of the board should attend the annual general meeting. He should also invite the chairman of the audit, remuneration, nomination and any other committees (as appropriate) to attend the annual general meeting. Mr. Sit, the Chairman, did not attend the annual general meeting of the Company held on 1 June 2018 due to dealing with his official engagement.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has since 24 June 2014 adopted the Model Code as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by the Directors. Having made specific enquiry with all Directors of the Company, all Directors confirmed that they had complied with the required standard set out in the Model Code throughout the six months ended 30 June 2018.

REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 24 June 2014, our Board established an audit committee (the "**Audit Committee**") with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 of the Corporate Governance Code. The duties of our Audit Committee are, among others, to make recommendations to our Board on the appointment, re-appointment and removal of external auditors, and to assist our Board in fulfilling its responsibilities by providing an independent review and supervision of our financial and other reporting, by reviewing our internal control, risk management systems and internal audit functions.

During the six months ended 30 June 2018, the Audit Committee comprises all of our three Independent Non-executive Directors, namely Mr. Lui Wai Ming, Mr. To Chun Kei and Ms. Chan Lai Wa, with Mr. Lui Wai Ming being the chairman of the Audit Committee. Our unaudited interim results and the interim report for the six months ended 30 June 2018 have been reviewed by the Audit Committee, which was of the opinion that the preparation of such results and report complied with the applicable accounting standards and requirements, and that adequate disclosures have been made. The Audit Committee has recommended the Board to adopt the same.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchases, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

CHANGE OF INFORMATION RELATING TO DIRECTORS

Mr. Lui Wai Ming ceased to be the executive director of Hosa International Limited, a main board listed company in Hong Kong (stock code: 2200), with effect from 1 August 2018.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	NOTES	For the six months ended 30 June 2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Revenue	3	**84,276**	98,018
Cost of sales		**(44,741)**	(57,912)
Gross profit		**39,535**	40,106
Other gains and losses	4	**(3,163)**	(19,800)
Other income	5	**466**	657
Distribution expenses		**(36,297)**	(60,304)
Administrative expenses		**(26,250)**	(27,000)
Finance costs	6	**(15,623)**	(13,887)
Loss before tax		**(41,332)**	(80,228)
Income tax expense	7	**(1,789)**	(1,360)
Loss for the period	8	**(43,121)**	(81,588)
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
Remeasurement of defined benefit scheme		**485**	–
Item that may be subsequently reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations		**(1,056)**	10,591
Other comprehensive (expense) income for the period		**(571)**	10,591
Total comprehensive expense for the period		**(43,692)**	(70,997)
Loss per share — (expressed in HK cents)			
Basic	10	**(12.41)**	(23.48)
Diluted	10	**(12.41)**	(23.48)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	NOTES	**As at 30 June 2018 HK$'000 (Unaudited)**	As at 31 December 2017 HK$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	**39,244**	44,216
Deposits placed for life insurance policies		**17,702**	17,405
Deposit paid for acquisition of a subsidiary	12	**–**	25,000
		56,946	86,621
Current assets			
Inventories		**392,352**	402,224
Trade and other receivables	13	**58,680**	81,569
Pledged bank deposits		**1,033**	1,026
Bank balances and cash		**36,124**	56,177
		488,189	540,996
Current liabilities			
Trade and other payables	14	**38,087**	39,241
Tax payable		**2,953**	2,333
Bank and other borrowings	15	**9,393**	11,591
Notes payable	16	**100,000**	140,000
Liability component of convertible bond	17	**94,623**	–
		245,056	193,165
Net current assets		**243,133**	347,831
Total assets less current liabilities		**300,079**	434,452

	NOTES	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Non-current liabilities			
Deferred tax liabilities		**21,726**	21,921
Pension obligation		**4,459**	4,973
Liability component of convertible bond	17	**–**	89,972
		26,185	116,866
Net assets		**273,894**	317,586
Capital and reserves			
Share capital	18	**3,474**	3,474
Reserves		**270,420**	314,112
Total equity		**273,894**	317,586

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Share capital HKD'000	Share premium HKD'000	Other reserve HKD'000 (note 1)	Share option reserve HKD'000	Convertible bond equity reserve HKD'000	Actuarial gain and loss reserve HKD'000	General reserve HKD'000 (note 2)	Translation reserve HKD'000	Retained profits HKD'000	Total HKD'000
At 1 January 2017 (audited)	3,474	182,099	15,500	2,451	–	(2,721)	1,547	(5,026)	295,746	493,070
Loss for the period	–	–	–	–	–	–	–	–	(81,588)	(81,588)
Other comprehensive income for the period	–	–	–	–	–	–	–	10,591	–	10,591
Total comprehensive income (expense) for the period	–	–	–	–	–	–	–	10,591	(81,588)	(70,997)
Lapse of share option	–	–	–	(826)	–	–	–	–	826	–
Recognition of equity component of convertible bond (note 17)	–	–	–	–	16,288	–	–	–	–	16,288
Deferred tax liabilities on recognition of equity component of convertible bond	–	–	–	–	(1,797)	–	–	–	–	(1,797)
At 30 June 2017 (unaudited)	3,474	182,099	15,500	1,625	14,491	(2,721)	1,547	5,565	214,984	436,564
At 1 January 2017 (audited)	3,474	182,099	15,500	–	14,491	(2,325)	1,547	1,886	100,914	317,586
Loss for the period	–	–	–	–	–	–	–	–	(43,121)	(43,121)
Other comprehensive (expense) income for the period	–	–	–	–	–	485	–	(1,056)	–	(571)
At 30 June 2018 (unaudited)	3,474	182,099	15,500	–	14,491	(1,840)	1,547	830	57,793	273,894

Notes:

1. Other reserve of HK$15,500,000 represents amount arising from capitalisation of loans from shareholders due by Ernest Borel (Far East) Company Limited ("**EB Far East**"), a subsidiary of the Company in 2005.

2. General reserve represents the legal reserve being allocated from the retained profits of Ernest Borel S.A. ("**EB Switzerland**") and Ernest Borel (Guangzhou) Trading Co., Ltd ("**EB (GZ)**"), the subsidiaries of the Company, as required under the relevant legislation of Switzerland and the People's Republic of China (the "**PRC**"), respectively. According to the relevant legislation, EB Switzerland has allocated to the general reserve until this reserve reached 50% of its share capital. For the legal reserve in the PRC, it represented the statutory surplus reserve of EB (GZ).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018	2017
	HKD'000	HKD'000
	(Unaudited)	(Unaudited)
NET CASH FROM (USED IN) FROM OPERATING ACTIVITIES	**11,101**	(12,120)
INVESTING ACTIVITIES		
Deposit paid for acquisition of a subsidiary	**25,000**	(25,000)
Additions of property, plant and equipment	**(3,468)**	(9,676)
Pledged bank deposits placed	**(1,033)**	–
Pledged bank deposits withdrawn	**1,026**	–
Interest received	**38**	39
Repayment from related parties	**–**	50
Proceeds from disposal of property, plant and equipment	**–**	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**21,563**	(34,587)
FINANCING ACTIVITIES		
Proceeds from issue of convertible bond	**–**	98,500
New bank and other borrowing raised	**9,415**	9,341
Repayment of bank and other borrowings	**(11,613)**	(55,026)
Repayment of note payable	**(40,000)**	–
Interest paid	**(10,972)**	(6,738)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(53,170)**	46,077
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(20,506)**	(630)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	**56,177**	18,272
Effect of foreign exchange rate changes	**453**	555
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, represented by bank balances and cash	**36,124**	18,197

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 ("**IAS 34**") "Interim Financial Reporting" issued by the International Accounting Standards Board ("**IASB**") as well as the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange (the "**Listing Rules**").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for defined benefit scheme, which are measured at fair value.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the annual financial statements of the Group for the year ended 31 December 2017.

In the current period, the Group has applied, for the first time, the following new and amendments to International Financial Reporting Standards ("**IFRSs**") issued by the **IASB** that are mandatory and effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
IFRIC Interpretation 22	Foreign Currency Transactions and Advance Consideration
Amendments to IFRS 2	Classified and Measurement of Shared-based Payment Transaction
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers
Amendments to IAS 40	Transfers of Investment Property

The Group applies IFRS 15 using the modified retrospective approach which means that the cumulative impact of the initial adoption of IFRS 15 (if any) would be recognised in retained earnings as of 1 January 2018 and that comparative was not be restated. The Group concluded that more disclosure of disaggregated revenue information and certain reclassification of contract liabilities from other payables, there is no change in the timing of revenue recognition i.e. the Group will continue to recognise revenue at a point of time when the goods are delivered. As such, no adjustment was required to the Group's retained earnings as at 1 January 2018. A contract liability represents the Group's obligation to transfer goods to a customer for which the Group has received consideration from the customer. In this regard, cash or bank acceptance notes collected from certain customers before product delivery is recognised as contract liabilities.

The Group concluded IFRS 9 has no material impact on the classification and measurement of its financial assets and has no significant impact on the impairment assessment of its financial assets. The Group did not restate comparative and no transition adjustment against the opening balance of equity at 1 January 2018 was made.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The other amendments and interpretations apply for the first time in 2018 have no material impact on the accounting policies of the Group.

Impact of standards issued but not yet adopted by the Group

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessees accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees. However, the standard does not significantly change the accounting of lessors.

At 30 June 2018, the Group has non-cancellable operating lease commitments of HK$11,102,000. A preliminary assessment indicates that these arrangements will meet the definition of a lease under IFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of IFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above.

Except as described above, the Directors of the Company anticipate that the application of the other new and amendments to IFRSs will have no material impact on the Group's condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

Revenue represents the amount received or receivable for the sales of watches products, less returns and trade discounts, during the interim period.

The Group's principal activities are manufacturing and sales of watches. Information reported to the chief operating decision makers, being the executive directors of the Company, for resource allocation and performance assessment, is based on the Group's overall performance, which is considered as a single operating segment. Segment revenue and results are therefore the same as the amount presented in the condensed consolidated statement of profit or loss and other comprehensive income. Entity wide segment information is set out below.

3. REVENUE AND SEGMENT INFORMATION (Continued)

Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Mechanical watches	**57,744**	65,330
Quartz watches	**24,552**	30,732
Others	**1,980**	1,956
	84,276	98,018

Geographical information

The following table sets out information about the geographical location of the Group's revenue from external customers determined based on the location of customers.

	Revenue from external customers For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
People's Republic of China ("**PRC**")	**73,924**	81,246
Hong Kong and Macau	**4,746**	5,084
Southeast Asia	**4,532**	9,004
Others	**1,074**	2,684
	84,276	98,018

4. OTHER GAINS AND LOSSES

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss on disposal of property, plant and equipment	**–**	(4)
Exchange loss (gain), net	**(3,324)**	9,285
Reversal of allowance/allowance for doubtful debts	**161**	(10,297)
Loss of inventory	**–**	(18,784)
	(3,163)	(19,800)

5. OTHER INCOME

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest on life insurance contracts	**343**	336
Bank interest	**38**	43
Maintenance services	**47**	48
Sundry	**38**	230
	466	657

6. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Interest on:		
Bank and other borrowings	**208**	219
Note payable	**5,804**	5,456
Convertible bond	**9,611**	8,212
	15,623	13,887

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current tax:		
Hong Kong Profits Tax	**–**	–
Switzerland income tax	**1,938**	712
PRC Enterprise Income Tax	**–**	–
	1,938	712
Deferred tax (income)/charge	**(149)**	648
Income tax expense for the period	**1,789**	1,360

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both periods.

Switzerland income tax is calculated at certain tax rates on the assessable income for both periods. Under relevant Tax Law in Switzerland, the Group's subsidiary incorporated in Switzerland was subject to Direct Federal Tax ("**DFT**") of 8.5% (six months ended 30 June 2017: 8.5%) and Cantonal Communal Tax ("**CCT**") of 16.53% (six months ended 30 June 2017: 16.55%).

Swiss Federal withholding tax is levied at a rate of 35% on the distribution of the profit of the company incorporated in Switzerland for both periods.

Under the laws of PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of EIT Law, the tax rate of the PRC subsidiary is 25%.

8. LOSS FOR THE PERIOD

	For the six months ended 30 June	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Loss for the period has been arrived at after charging/ (crediting):		
Reversal of allowance/allowance for doubtful debts	**(161)**	10,297
Reversal of allowance/allowance for inventories	**(1,477)**	2,670
Cost of inventories recognised as expenses	**46,218**	47,417
Depreciation of property, plant and equipment	**8,108**	19,178
Loss of inventory	**–**	18,784
Operating lease rental in respect of rented premises	**6,217**	11,106

9. DIVIDEND

No dividend has been proposed or paid for ordinary shareholders of the Company during the period ended 30 June 2018, nor has any dividend been proposed since the end of the reporting period.

10. LOSS PER SHARE

The calculation of the basic and diluted loss per share for the period ended 30 June 2018 is based on the loss attributable to the owners of the Company of HK$43,121,000 (six months ended 30 June 2017: HK$81,588,000) and on the weighted average number of 347,437,000 (six months ended 30 June 2017: 347,437,000) ordinary shares in issue during the period.

The computation of diluted loss per share for the period ended 30 June 2017 and 2018 does not assume the exercise of the Company's share options and convertible bond because the exercise prices of the share options and convertible bond were higher than the average market price for both periods.

11. MOVEMENT IN PROPERTY, PLANT AND EQUIPMENT

During the period ended 30 June 2018, the Group acquired property, plant and equipment of HK$3,468,000 (six months ended 30 June 2017: HK$1,447,000).

12. DEPOSIT PAID FOR PROPOSED ACQUISITION OF A SUBSIDIARY

On 10 May 2017, the Company entered into a non-legally binding memorandum of understanding ("**MOU**") with Mr. Sit Yau Chiu, the substantial shareholder of the Company and also the Chairman and executive director of the Company for the proposed acquisition of entire equity interest in Top Win International Trading Limited (the "**Proposed Acquisition**"). The total consideration of the Proposed Acquisition was expected to be HK$50,000,000. On 30 November 2017, Swissmount Holdings Limited ("**Swissmount**"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement ("**SPA**") with Mr. Sit, pursuant to which Swissmount conditionally agreed to acquire and Mr. Sit conditionally agreed to sell 100% of the issued share capital of Top Win International Trading Limited for a consideration of HK$50,000,000. As at 31 December 2017, a deposit of HK$25,000,000 was paid by the Group to Mr. Sit and included in the non-current assets of the Group. The deposit paid will be applied to settle part of the consideration for the Proposed Acquisition and the remaining balance of consideration will be settled upon completion. On 22 March 2018, a supplemental sale and purchase agreement was entered into by Swissmount with Mr. Sit to amend certain terms of the SPA.

The proposed acquisition was voted down by the independent shareholders of the Company at the extraordinary general meeting of the Company held on 17 April 2018. This condition precedent to the completion of the Acquisition could not be fulfilled on or before 30 April 2018 and the Sale and Purchase Agreement ceased to be of any effect on 30 April 2018 and the Acquisition was terminated accordingly. The whole deposit was received by the Company from Mr. Sit on 3 May 2018.

13. TRADE AND OTHER RECEIVABLES

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Trade receivables	**68,669**	92,619
Less: allowance for doubtful debts	**(19,781)**	(20,216)
	48,888	72,403
Other receivables	**3,142**	1,426
Other tax recoverable	**1,016**	1,847
Prepayments	**2,985**	2,715
Deposits	**2,649**	3,178
	9,792	9,166
	58,680	81,569

13. TRADE AND OTHER RECEIVABLES (Continued)

The Group allows credit period ranging from 30 to 90 days to its trade customers. The following is an aged analysis of trade receivables, net of allowance of doubtful debts, presented based on the invoice date which approximates respective revenue recognition dates:

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
0–90 days	**27,877**	42,177
91–180 days	**14,166**	28,557
181–270 days	**3,747**	1,068
Over 270 days	**3,098**	601
	48,888	72,403

14. TRADE AND OTHER PAYABLES

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Trade payables	**10,784**	8,579
Other payable	**6,859**	6,232
Accruals	**20,444**	24,430
	38,087	39,241

14. TRADE AND OTHER PAYABLES (Continued)

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting periods:

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
1–30 days	**3,780**	3,849
31–60 days	**5,298**	3,835
Over 60 days	**1,706**	895
	10,784	8,579

The credit period for trade purchases ranges from 30 to 90 days.

15. BANK AND OTHER BORROWINGS

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Bank loan	**3,866**	3,866
Import trade loans	**5,527**	7,725
	9,393	11,591
Analysed as:		
Secured	**9,393**	11,591
Unsecured	**–**	–
	9,393	11,591

During the period ended 30 June 2018, the Group obtained additional bank and other borrowings of HK$9,415,000 (six months ended 30 June 2017: HK$9,341,000) and repaid bank and other borrowings of HK$11,613,000 (six months ended 30 June 2017: HK$55,026,000).

15. BANK AND OTHER BORROWINGS (Continued)

All the Group's bank borrowings are variable-rate borrowings which carry interest at Hong Kong Interbank Offered Rate or London Interbank Offered Rate plus certain basis points. Interest is repricing every six months and the effective interest rates is ranging from 3.15% to 4.52% per annum for the period ended 30 June 2018 (six months ended 30 June 2017: 3.04% to 4.22% per annum).

Details of assets that have been pledged as collateral to secure bank borrowings are set out in note 21.

16. NOTE PAYABLE

(i) On 18 September 2017, the Company entered into a subscription agreement with an independent third party placing agent, pursuant to which, on 21 September, 2017, the Company issued a note of HK$100,000,000 ("**2017 Note**") to an independent third party. The 2017 Note is unsecured and guaranteed by Mr. Sit, carries interest at 8.5% per annum and will mature on 20 September, 2019. The holder of 2017 Note has a right to call the Company to redeem the 2017 Note after the first anniversary from the issue date of the of 2017 Note. The early redemption option of the 2017 Note was considered as closely related to the host debt of 2017 Note. In accordance with the note instrument and a supplemental agreement dated 18 September 2017 both entered into between the Company, the guarantor, Mr. Sit, an executive director of the Company and the note holder, the Company is required to maintain a financial indebtedness which, individually does not exceed HK$3,000,000, or in aggregate does not exceed HK$25,000,000. As at 30 June 2018, the bank loans of the Company individually does not exceed HK$3,000,000 and in aggregate amounted to HK$9,393,000.

As at 30 June 2018, the aggregate principal amount of the one note (31 December 2017: two notes) payable amounted to HK$100,000,000 (31 December 2017: HK$140,000,000). As at 30 June 2018 and up to the date of approval of the condensed consolidated financial statements, all the covenants of the note payable had been complied with.

(ii) On 24 October 2016, the Company entered into a subscription agreement with an agent, pursuant to which, on 28 October 2016, the Company issued a note of HK$80,000,000 to an independent third party (the "**2016 Note**"). 2016 Note was unsecured and guaranteed by Mr. Sit Yau Chiu ("**Mr. Sit**"), carries interest at 10% per annum and would mature on 27 October 2018. The noteholder had a right to call the Company to redeem the 2016 Note after the first anniversary from the issue date. The early redemption option was considered as closely related to the host debt of the 2016 Note. On 24 March 2017, an agreement was entered into between the Company, the guarantor, Mr. Sit being the substantial shareholder who has significant influence over the Group and being the Chairman and executive director of the Company, and the 2016 Note holder, pursuant to which the Company was required to maintain a balance of consolidated net assets of HK$500 million from 29 June 2017 to 23 October 2018. On 26 October 2017, the Company entered into a further supplemental agreement with the holder of 2016 Note, pursuant to which, HK$40,000,000 of the 2016 Note was early redeemed by the Company and the financial covenant on the Company's consolidated net asset had been retrospectively revised down to HK$250,000,000.

On 23 May 2018, the Company redeemed the remaining balance of HKD40,000,000 of the 2016 Note.

17. CONVERTIBLE BOND

The Company issued 10% convertible bond at a par value of HK$100,000,000 on 11 January 2017. The convertible bond is denominated in Hong Kong dollar, unsecured and is guaranteed by Mr. Sit. The convertible bond entitles the holder to convert them into ordinary shares of the Company at any time between the date of issue of the convertible bond and the settlement date on 11 January 2019 at a conversion price of HK$2.00 per conversion share. If the convertible bond has not been converted or redeemed, it will be redeemed on 11 January 2019 at par. Interest of 10% per annum will be paid quarterly up until the settlement date.

The major terms of the convertible bond are as follows:

(i) Conversion by the bondholder

The bondholder may at any time before the maturity date require the Company to convert the whole or any part of the outstanding principal amount of the convertible bond into shares. The initial conversion price will be HK$2.00 per conversion share, subject to any adjustment from time to time.

(ii) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled, the Company will redeem each bond at the outstanding principal amount on the maturity date.

(iii) Redemption at the option of the Company

The Company may at any time after the first anniversary of the issue date and from time to time, upon the Company giving thirty days prior written notice bondholder, the Company may redeem all or any such bond at the outstanding principal amount plus accrued and unpaid interests on such date.

At initial recognition, the equity component of the convertible bond was separated from the liability component. The equity element is presented in equity heading "convertible bond equity reserve". The early redemption option is considered as closely related to the host debt. The effective interest rate of the liability component is 21.10% per annum.

The movements of liability component of the convertible bond for the current period are set out below:

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Value as at 1 January 2018 and fair value at issue date on 11 January 2017	**92,191**	83,464
Issuing costs	**–**	(1,252)
Interest amortised and charged to profit or loss (note 6)	**9,611**	17,458
Interest paid	**(4,960)**	(7,479)
At 30 June 2018 and 31 December 2017	**96,842**	92,191
Less: Amount due within one year (note)	**(2,219)**	(2,219)
	94,623	89,972

note: The amount represented interest payable and included in other payables.

18. SHARE CAPITAL

	Number of ordinary shares '000	Par value HK$	Amount HK$'000
Authorised:			
At 1 January 2017, 30 June 2017, 31 December 2017 and 30 June 2018	10,000,000	0.01	100,000
Issued and fully paid:			
At 1 January 2017, 30 June 2017, 31 December 2017 and 30 June 2018	347,437	0.01	3,474

All the shares issued rank pari passu with the existing shares in all respect.

19. CAPITAL COMMITMENTS

At the end of the reporting period, the Group has the following capital commitment:

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	–	1,098

20. OPERATING LEASE COMMITMENT

At the end of the interim period, the Group had commitments for future minimum lease payments for premises under non-cancellable operating leases which fall due:

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Within one year	**7,241**	7,124
In the second to fifth years inclusive	**3,861**	7,227
	11,102	14,351

Operating lease payments represent rentals payable by the Group for its office and shops operated by retailers. Leases are negotiated for terms ranging from one year to three years with fixed monthly rentals.

21. PLEDGE OF ASSETS

The Group's bank borrowings are secured by:

	As at 30 June 2018 HK$'000 (Unaudited)	As at 31 December 2017 HK$'000 (Audited)
Fixed charges over time deposits	**1,033**	1,026
Fixed charges over deposits placed for life insurance policies	**17,702**	17,405